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The Effects of Leverage Ratios and Growth Opportunities on Investments: The Case of Turkey

Burcu Dinçergök¹¹Atılım University, Turkey

ABSTRACT

This study investigates how the growth opportunities and leverage ratios affect investments in Turkey. 135 manufacturing firms that are quoted to İstanbul Stock Exchange between the years of 2005 -2013 is analyzed using unbalanced panel data analysis. According to the results of the analysis cash flow and sales positively affect investments. As expected by the agency theories the relationship between leverage and investment is found to be negative. The negative relationship is stronger for firms that have low growth opportunities than the firms that has high growth opportunities. This result support the agency theory stating that the leverage diciplines management and reduces overinvestment. For the firms that have low levels of short term or long term debt, the effect of growth opportunities on investment is negative. The results are insignificant for the firms that have high levels of leverage.

KEYWORDS Investment; Leverage; Growth Opportunities; Turkey